



Submission to the Standing Committee on Finance (SCF) under the call for evidence for the preparation of the fifth Biennial Assessment (BA5) and overview of Climate Finance Flows

The Local Climate Adaptive Living (LoCAL) Facility, hosted by the UN Capital Development Fund (UNCDF), welcomes this opportunity to share views and case studies on the call for submissions for BA5. Following the BA's recognition of the Local Climate Adaptive Living Facility (LoCAL) as an initiative supporting domestic national budget systems for adaptation action while strengthening reporting system, the LoCAL Facility shares inputs on the following emerging approaches of performance-based budgeting, monitoring, tracking and reporting subnational government adaptation expenditures and revenues, investments in climate adaptation and resilience, domestic public climate finance for adaptation and access and ownership of climate finance, with a focus on the subnational level.

The LoCAL Facility, in accordance with the Paris Agreement, supports the local and subnational dimensions of adaptation implementation and enhances the capacity of vulnerable countries' efforts towards enhancing their adaptive capacity and strengthening resilience. Since its establishment in 2011, the LoCAL Facility has contributed to reducing vulnerability and enhancing the resilience of local communities by establishing a standard and internationally recognised country-based mechanism to channel climate finance to local government authorities for adaptation efforts, in particular in the Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African nations.

LoCAL has worked with 322 local governments, representing over 12.5 million people in 17 countries: Bangladesh, Benin, Bhutan, Burkina Faso, Cambodia, The Gambia, Ghana, Lao PDR, Lesotho, Malawi, Mali, Mozambique, Nepal, Niger, Uganda, Tanzania, and Tuvalu. Between 2014 and 2021, it mobilized approximately \$125 million in the form of grants, capacity building and operational support at the national and subnational levels. During the same period, almost 2,000 climate change adaptation interventions were financed, directly benefitting some 3.8 million people. Another 15 countries have expressed interest in joining LoCAL: in 2019/2020 (Côte d'Ivoire, Equatorial Guinea, Fiji, Guinea, Guinea Bissau, Jamaica, Liberia, Sao Tome and Principe, Senegal, the Solomon Islands, Somalia, Sudan, Tunisia, Vanuatu, and Zambia), bringing the total number of LoCAL countries to 32, of which 26 are LDCs, 6 are SIDS and 22 in Africa, with a potential scale-up reach of half a billion people.

I. Emerging approaches of performance-based budgeting, and of monitoring, tracking and reporting subnational government adaptation expenditures and revenues

The UNCDF is a global pioneer in innovative finance modalities for supporting local governments in developing countries. In particular, LoCAL combines **performance-based climate resilience grants (PBCRGs)** - which ensure programming and verification of climate change expenditures at the local level while offering solid incentives for performance improvements in enhanced resilience - with technical and capacity-building support and monitoring and quality assurance functions. LoCAL applies principles of fiscal decentralisation and effective local planning and public financial management to climate change. PBCRGs provide a **financial top-up** to cover the additional costs of making investments climate-resilient and are channelled through existing government fiscal transfer systems (rather than parallel or ad hoc structures). International climate finance is channelled **through national treasuries — right down to the local level, with special accounts ensuring traceability and additionality**. LoCAL uses the government treasury system to transfer adaptation finance to target local governments, ensuring traceability of the funds and a high level of mainstreaming and alignment with existing public financial management procedures (systemic approach). Please refer to Figure 1.

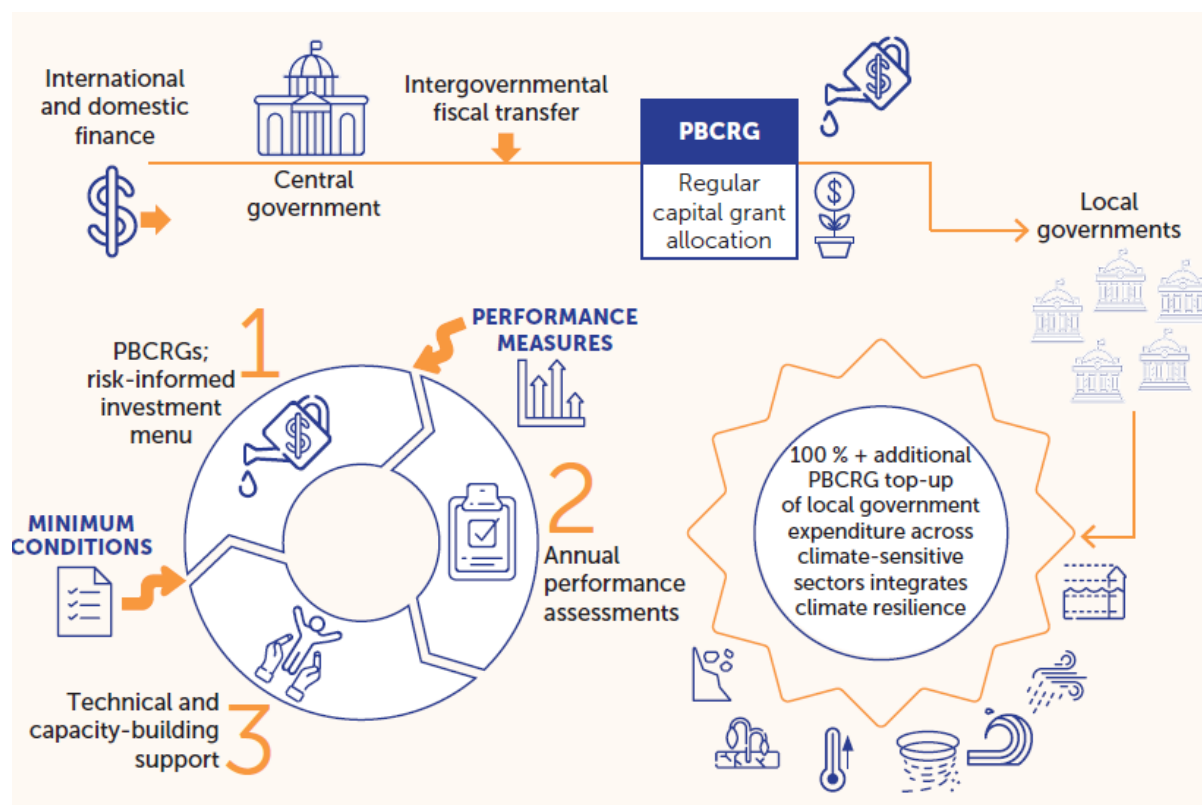


Figure 1 - How LoCAL PBCRGs work



LoCAL's PBCRGs incentivize LGs to improve performance through annual performance assessments (APA) linked with access to and size of the grants and how these additional resources (top ups) have been used to build resilience and promote adaptation. This is done by conducting third-party independent annual performance assessments, on one hand, and audits as part of a regular national process, on the other, with the performance results informing the subsequent PBCRG allocations. The annual performance assessments also support identifying capacity needs and gaps. In the event that a local government does not meet the minimum conditions, which are mandatory APA indicators/requirements, for the following year, it will not receive the grants, but will receive support in identifying and implementing corrective actions and targeted capacity building.

This approach avoids parallel, project-specific operations, and instead supports strengthening of national systems that facilitate future scale-up and can attract additional funding, promoting harmonization, alignment and sustainability. While LoCAL has essential core design features, it can be flexibly applied and adjusted to any country context.

With regards to issues of M&E approaches and metrics to report subnational adaptation efforts and financing flows, LoCAL deploys the “Assessing Climate Change Adaptation Framework (ACCAF)”, co-developed with the World Resources Institute (WRI). ACCAF aims at providing an adaptation monitoring and evaluation framework that enables LoCAL to address climate change more effectively and that allows for a better understanding and sharing of the adaptation achievements, ensuring the adaptation additionality of the LoCAL mechanism and investments that follow. The framework includes, *inter alia*, technical assistance to local actors, including subnational governments, in mainstreaming adaptation, in a participatory and gender-sensitive manner, in local development planning and budgeting processes, in downscaling/localizing climate risk and vulnerability assessments that integrate both climate data (past and future) and local/traditional knowledge to ensure a risk informed local plan, development of a monitoring framework grounded on solid adaptation rationale indicators, etc.

Here is an example of how LoCAL uses the above methodologies to report on subnational adaptation. Looking at the PBCRG-financed interventions by sector in 2021/2022, 78 per cent of interventions focused on water, sanitation and hygiene (WASH), agriculture, and disaster prevention and preparedness followed by investments in transport and storage (11 per cent) (figure 2). The majority of interventions (81 per cent) financed in 2021/2022 were classified as climate smart, as defined by the ACCAF, methodology. These are interventions aimed at development goals, but whose actions need to be modified, changed or adjusted to account for climate change – e.g. climate proofing of critical infrastructure (figure 3). Another 4 per cent of interventions were classified as climate strategic – actions or interventions that are not particularly distinct from development business as usual, but that may be of greater priority because of climate change. Nine per cent of the overall portfolio was classified as climate complementary, comprising those actions or interventions that are not specific to climate change, but loosely relate to underlying drivers of climate vulnerability; 6 per cent were classified as climate specific – interventions that focus specifically and almost exclusively on

addressing impacts of climate change.

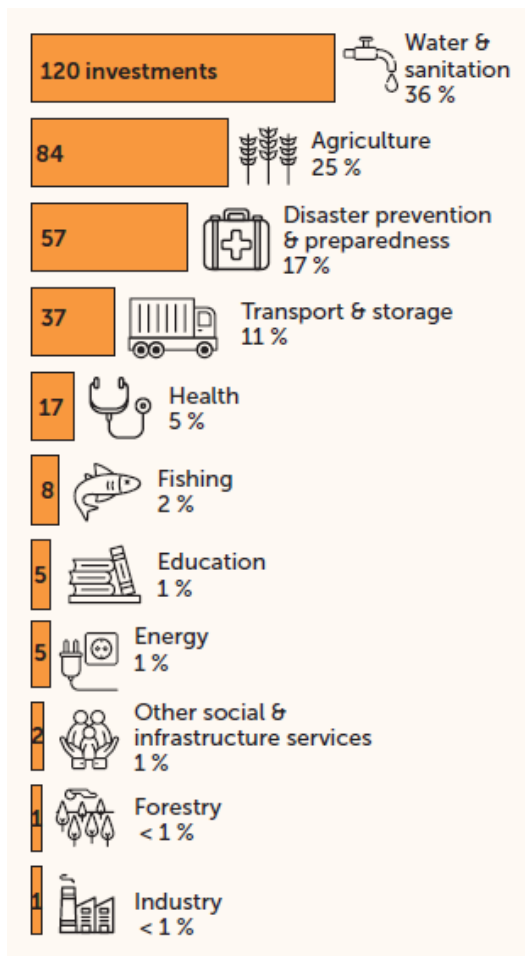


Figure 2 LoCAL investments by sector 2021/2022

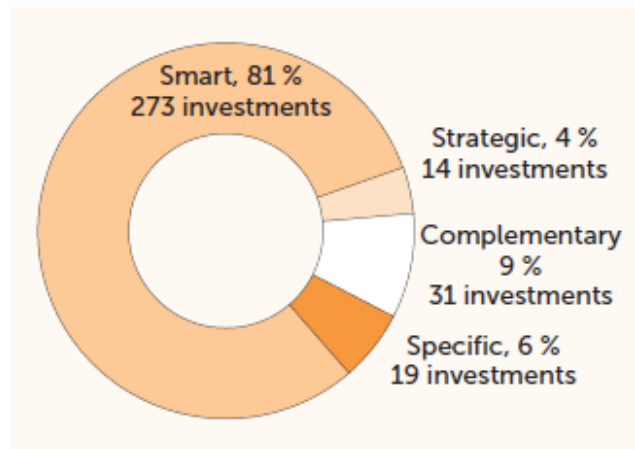


Figure 3 LoCAL investments by climate responsiveness 2021/2022

Examples of good practices and lessons learned from LoCAL and its PBCRG system

The Kingdom of Bhutan	
Context & Objectives	<p>The overall goal of the LoCAL-Bhutan initiative is to improve the resilience of local communities to climate change by increased access to climate change adaptation financing by local governments through performance-based climate resilience grants (PBCRGs). The programme's core objectives are to ensure that dzongkhags and gewogs can accomplish the following:</p> <ul style="list-style-type: none"> • Respond to the increasing impact of climate change on local livelihoods and livelihood assets in accordance with community prioritized needs and vulnerabilities in a sustainable manner; • Promote robust, transparent and accountable public financial management/public expenditure management systems by providing funds to make the local planning and budgeting process meaningful, efficient, effective and participatory as well as strengthening incentives for integrating climate change adaptation needs in local investments; • Train the participating local governments to develop their knowledge and skills for integration of climate change adaptation in local development investments.
Achievements	<ul style="list-style-type: none"> • Bhutan and Cambodia were the first countries selected by LoCAL to pilot PBCRGs; their efforts served to validate the approach. LoCAL-Bhutan was initiated in 2011 in two gewogs in two dzongkhags. It has since been extended to 100 gewogs across 16 of the country's 20 dzongkhags with budgetary support from the European Union (EU) and technical support from LoCAL. • LoCAL's successful integration in the Local Governance Sustainable Development Programme has been instrumental in supporting local governments in developing and rolling out guidelines, supporting participatory climate vulnerability assessments and integration of adaptation in local development planning, and raising awareness. • LoCAL grants effectively apply existing national capital grant rules and regulations for allocating, channelling and reporting on funds while strengthening the overall intergovernmental fiscal transfer system and piloting innovative features (e.g. for performance measurement). • The Assessing Climate Change Adaptation Framework (ACCAF) was successfully piloted in Bhutan and is now being rolled out to other LoCAL countries. • The Bhutan Trust Fund for Environmental Conservation (BT FEC) was nominated as the Green Climate Fund (GCF) national implementing entity with a view to scaling up LoCAL. With LoCAL support, BT FEC was accredited in early 2020. LoCAL and BT FEC are collaborating to submit a concept note to GCF to support Phase III. • Building on its positive GCF accreditation experience, BT FEC is further leveraging LoCAL support to fast track its accreditation to the Adaptation Fund, paving the way for more diversified funding sources to sustain LoCAL national roll-out. Similarly, the Bhutan National Bank is pursuing GCF accreditation with LoCAL support. <p>In 2021, LoCAL and the World Resources Institute (WRI) launched evaluation research to document and assess how climate finance has been reaching the local level in Bhutan and its effectiveness in achieving adaptation results through LoCAL. It especially focuses on documenting whether and how local-level climate</p>

	<p>finance is making a tangible impact on individuals and communities on the ground. The report is expected to be released in 2022.</p>
Adaptation measures and investments	<p>Since 2012, more than 344 small-scale investments have been realized through PBCRGs in 100 gewogs, 30 in 2021. Among the core adaptation priorities financed are the following:</p> <ul style="list-style-type: none"> • Infrastructure works aimed at the improvement of farm roads for enhanced climate resilience – this involved slope stabilization of landslide-vulnerable areas, rectification/improvement of the drainage system and construction of a causeway • Construction of elevated bridges to overcome risks posed by swollen rivers and streams during heavy rain events • Improvement of rural water supply schemes – this involved tapping new/additional water sources, protecting water sources and their enhancement through planting water-conserving species, upgrading water tanks to increase storage capacity, or replacement of water supply lines with climate-resilient materials • Community water harvesting and improvement of irrigation systems by rehabilitating irrigation channels and installing climate-resilient pipes to distribute irrigation water more effectively and improve agricultural productivity and farm livelihoods • Soil conservation and landslide risk mitigation works, such as planting bamboo plants and hedgerows and contour bunding to prevent soil erosion and protect agricultural lands • Development of storm water drainage to mitigate flood and landslide risks to farmlands, schools, homes and other public and private properties in rural areas.
Lessons learned	<ul style="list-style-type: none"> • The introduction of LoCAL PBCRGs has promoted robust, transparent and accountable public financial management/public expenditure management systems while addressing local climate adaptation priorities. Bhutan is implementing LoCAL Phase III, using EU budget support to finance PBCRGs. • The PBCRGs have been effective in transferring adaptation finance directly to dzongkhags and gewogs and in providing an incentive for local governments to think about and plan for climate change adaptation actions. Using existing government systems and procedures with limited additional requirements has improved efficiency in spending and allowed for low transaction costs, while creating strong ownership. • Baseline and monitoring assessments have provided useful information about local government capacity in terms of areas to be strengthened and performance trends in climate change and public financial management. Participatory climate risk assessments at the local level have supported planning and prioritization for using grants in climate change initiatives.

II. Investments in climate adaptation and resilience and climate-related finance flows

As a country-based mechanism designed to deliver domestic and international climate finance to the local level, LoCAL continued to enable subnational governments to assess risks, plan, implement, and monitor climate resilient development in over 30 developing countries, including 26 LDCs and 6 SIDS, and 23 African Nations. A total of 328 local governments are



implementing LoCAL, driving locally led adaptation and building climate resilience for more than 12.5 million people in the world's South.

In 2021, LoCAL raised US\$25 million in direct funding bringing the total of funds mobilised to US\$125 million, including \$26.48 million (approximately 21 per cent) in parallel funding. Of this cumulative amount, US\$ 17.2 million (approximately 14 per cent) were contribution from governments own resources. Between June 2021 and May 2022, LoCAL delivered US\$22.82 million to participating countries and local governments in the form of grants, capacity building and operational support at the national and subnational levels. Cumulative total delivery (2014–2021) was US\$68.03 million.

The below table depicts aggregate estimation of the PBCRGs considering scale up scenarios and associated funding gaps in the current LoCAL countries.

Dashboard	Scale up scenario	All costs/Year	# LGs	#Pop reach (million)	#Direct beneficiaries (million)
	25% scale up	\$ 93,975,001	2,015	117.7	17.7
	50% scale up	\$ 187,950,002	4,031	235.5	35.4
	75% scale up	\$ 281,925,003	6,046	353.3	53

Note: The assessment aims to understand the funding gap to be filled to scale up performance-based climate resilience grants (PBCRG) to 25%, 50% and 75% of local governments in LoCAL countries. The estimates took into account population data from World Bank – excluding the largest city in the country (usually the capital city), target local government level – based on the subsidiarity principle, which considers the closest level to local constituencies as possible, PBCRG size in each LoCAL country as currently financed by the LoCAL. In addition, 20% of the PBCRG cohort was added to cover the capacity building and technical assistance needed to implement the grants and a 10% operational budget for the grant facility. Direct beneficiaries were estimated as 15% of the target population

III. Ownership of Climate Finance

Direct access to sustainable financing for climate resilience, including international climate finance such as the Green Climate Fund (GCF) and Adaptation Fund (AF), remains a challenge for sub-national actors.

LoCAL supports national partners in the Least Development Countries (LDCs), Small Island Developing States (SIDS) and African nations in unlocking resources that will ensure efforts are sustained through a sequencing of finance. This includes support to accreditation efforts to vertical funds such as the AF and GCF, while developing a pipeline of proposals for local adaptation finance by GCF or the Adaptation Fund to further enable LoCAL expansion. It also supports direct access to the AF and GCF to address local adaptation needs, channelling



resources to local governments and communities through national systems for building verifiable climate change adaptation and resilience.

In LoCAL countries –e.g., Benin, Bhutan, Cambodia, Mali, Niger and Tanzania – a national body in charge of or involved in the LoCAL country mechanism was nominated by its government as the country’s national implementing entity to be accredited to AF and/or GCF. With LoCAL support, Benin’s National Fund for Environment and Climate (FNEC), Cambodia’s National Committee for Subnational Democratic Development Secretariat, and the Bhutan Trust Fund for Environmental Conservation have succeeded in getting accredited to the GCF. LoCAL is also supporting the GCF accreditation efforts of national implementing entities in Mali (the Local Authorities National Investment Agency, ANICT), Niger (the National Agency for Local Authority Funding, ANFICT), Tanzania (President’s Office – Regional Administration and Local Government, PO-RALG) and the Bhutan National Bank.

The LoCAL Mechanism also provides TA for development and submission of concept note and funding proposals to the AF and GCF, including its Enhanced Direct Access programme. LoCAL has been supporting member countries (14 as of 2022) to directly access GCF funding, for a pipeline of approximately US\$170 million. Most of the proposals are positioned in the Enhanced Direct Access (EDA) window, which seeks to enable regional and national accredited entities to establish country-based mechanisms involving a stronger devolution of decision-making to local actors, including local authorities. A pipeline of approximately US\$15 million is being developed for direct access to the Adaptation Fund. Combined, the LoCAL Facility currently supports 14 countries in such efforts for an active AF and GCF pipeline of approximately US\$185 million.

Additionally, candidate countries are exploring how to leverage the GCF Readiness Programme to deploy LoCAL Phase I and prepare the ground in view of a subsequent LoCAL roll out through GCF direct access or other funding sources including domestic resources.